

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-292-WS – ORDER NO. 2018-__
MAY __, 2018

IN RE:

Application of Carolina Water Service,)
Incorporated for Approval of an Increase)
in Its Rates for Water and Sewer Services)
_____)

**ORDER APPROVING
ADJUSTMENT IN RATES AND
CHARGES AND
MODIFICATION OF TERMS
AND CONDITIONS**

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Carolina Water Service, Incorporated, (“CWS” or “the Company”) for an increase in rates and charges for the provision of water and sewer service and the modification of certain terms and conditions related to the provision of such service. The Application was filed on November 10, 2017, pursuant to S.C. Code Ann. § 58-5-240 (2015) and S.C. Code Ann. Regs. 103-512.4A, 103-503, 103-712.4A, and 103-703 (2012) with a test year ending August 31, 2017.

By letter dated December 12, 2017, the Commission’s Docketing Department instructed CWS to publish a prepared Revised Notice of Filing and Hearing and Pre-file Testimony Deadlines, one time, in newspapers of general circulation in the area affected by CWS’s Application. The Revised Notice of Filing and Hearing and Pre-file Testimony Deadlines described the nature of the Application and advised all interested persons desiring to participate in the proceedings and hearing, scheduled for April 3, 2018, of the manner and time in which to

file appropriate pleadings for inclusion in the proceedings as a party of record. By letter dated November 29, 2017, the Commission's Docketing Department instructed CWS to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Revised Notice of Filing and Hearing and Pre-filed Testimony Deadlines. On December 28, 2017 and January 4, 2018, the Company filed Affidavits of Publication demonstrating that the Revised Notice of Filing and Hearing and Pre-file Testimony Deadlines had been duly published and provided letters certifying that it had complied with the instructions of the Commission's Docket Department.

As reflected in the Revised Notice of Filing and Hearing and Pre-file Testimony Deadlines, the Company proposed new monthly water and sewer service rates for its two service territories for both its residential and commercial customers. By its Application, the rate sought by the Company would permit it the opportunity to earn an additional \$4,511,414 in annual revenues.

Mr. James Knowlton, as an individual ratepayer, Mr. Laura Valtorta, Esquire on behalf of the Forty Love Homeowners Association ("Forty Love HOA"), and Mr. Michael Kendree, Esquire representing York County, all filed petitions to intervene in this matter. Pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2015), the South Carolina Office of Regulatory Staff ("ORS") is a party of record in this proceeding. Prior to the hearing commencing in this matter on April 3, 2018, CWS filed a letter dated March 27, 2018, in which CWS withdrew its request for Commission approval of a Utility Service Improvement Rate ("USIR"). As a result of CWS withdrawing its request for the USIR, York County withdrew as an Intervenor.

II. TESTIMONY RECEIVED FROM THE PARTIES AND PUBLIC WITNESSES

On February 26, 2018, the Company filed with the Commission the Direct Testimony from Robert M. Hunter, Michael R. Cartin, Bob Gilroy, and Dylan D’Ascendis in support of its Application. ORS filed the Direct Testimony and Exhibits of its witnesses Zachary J. Payne and Matthew P. Schellinger II with the Commission on March 12, 2018, and the Revised Direct Testimony and Exhibits of Dr. Douglas Carlisle on March 15, 2018. The Company filed Rebuttal Testimony from its witnesses Cartin and Gilroy and Rebuttal Testimony and Exhibits from its witnesses Hunter and D’Ascendis on March 19, 2018. The Company filed Responsive Testimony of witness Gilroy on March 21, 2018. Surrebuttal Testimony by ORS witness Carlisle was filed with the Commission on March 26, 2018. Revised Surrebuttal Testimony and Exhibits of ORS witnesses Payne and Schellinger were filed with the Commission on March 30, 2018. Surrebuttal Testimony was filed by Company witness Cartin on April 2, 2018. Intervenor Forty Love HOA filed testimony from its witnesses Barbara “Bobbie” King and Jay Dixon with the Commission on February 26, 2018. York County filed testimony from its witness David Hughes on March 12, 2018. A letter setting forth certain proposed testimony was filed with the Commission by the Intervenor James Knowlton on March 16, 2018.

On January 31, 2018, the Commission issued a Transmittal letter instructing the Company to notify its customers that public night hearings were to be held in York, Greenville, and Lexington Counties. The night hearings were all scheduled for March 6th at 6:30 p.m. in Lake Wylie, March 13th at 6:00 p.m. in Greenville, and March 15th at 6:00 p.m. in Lexington County. The sign-in sheets for the three public night hearings were offered into the record as Exhibits #1, #5-A, and #6 respectively. A total of 29 customers of CWS provided testimony at

the night hearings. Many of the public witnesses voiced general objections to the amount of the requested increase in rates. Several of the public witnesses raised specific concerns about the quality of the water provided to them by CWS. Mr. Lee Kehler testified that he had performed a test of the water at his home in December of 2017 which revealed levels of lead in the water from his hose was almost four times that of the EPA maximum contaminant level.¹ Mr. Chuck Ledford², Mrs. Jean Waugh³, and Mr. Al Vesting⁴, all complained that water provided to them by CWS had caused staining of faucets and other facilities and appliances in their homes and of frequent water outages and boil water advisories. Brian Augustine testified at the Lake Wylie Night Hearing that he used a whole house filtration system on his house and that his filters indicate that there is something black in the water provided by CWS to the River Hills subdivision⁵. Mr. Augustine further testified that his neighborhood had been issued a boil water advisory five times in the past two years⁶ and that his water meter is underwater and therefore cannot understand how CWS is reading the meter and that his complaints about a leak at the meter have gone unanswered.⁷

The public merits hearing was held at the Commission's Hearing room on April 3, 2018, at 10:30 a.m. to receive testimony from the Parties and any public witnesses. The Honorable Swain Whitfield, Chairman of the Commission, presided. CWS was represented by Scott Elliott, Esquire and Charles Terreni, Esquire. ORS was represented by Jeffrey Nelson, Esquire and

¹ Tr. P.12, l. 25 – P. 13, l. 16.

² Tr. P. 25, ll. 12- 23.

³ Tr. P. 147, l. 13 – P. 148, l. 17.

⁴ Tr. P. 30, ll. 3 - 15.

⁵ Tr. P. 38, ll. 9 – 25.

⁶ Tr. P. 39, ll. 8 – 11.

⁷ Tr. P. 39, ll. 12-21.

Florence Belser, Esquire. The Intervenor Forty Love HOA was represented by Laura Valtorta, Esquire and Intervenor James Knowlton represented himself. Intervenor York County having withdrawn from this case prior to the merits hearing did not appear.

Two additional public witnesses, Mr. Ron Gremore and Mr. Reed Bull testified in opposition to the rate application immediately prior to the start of the merits hearing on April 3rd.

CWS witnesses Cartin, Gilroy and Hunter, presented as a three-person panel, were sworn in and had their pre-filed Direct and Rebuttal Testimonies accepted into the record. Witness Gilroy additionally had his Responsive Testimony to Customer Concerns and Witness Cartin his Surrebuttal Testimony read into the record. All witnesses presented summaries of their testimonies and were made available for cross-examination by ORS and the Intervenor and examination by the Commission. Exhibits which were filed with and attached to the pre-filed Rebuttal Testimony of CWS witness Hunter were offered into evidence and made a part of the record as Hearing Exhibit 7. Page 2 Lines 3 through 26 of Witness Cartin's Pre-filed Surrebuttal Testimony was withdrawn by the Company and not entered into the Record. CWS's fourth witness Dylan D'Ascendis appeared individually. His Direct and Rebuttal Testimonies were also read into the record and his exhibits DWD-1 through DWD-8 of his Direct Testimony were entered into the record as Hearing Exhibit 8 and his Exhibits DWD 1-R through 6-R, attached to his Rebuttal Testimony, were entered into the record as Hearing Exhibit 9.

Mr. Cartin is the Operations and Regulatory Affairs Manager for CWS. He provided testimony regarding several specific topics. Namely, the effect of a recent increase in purchased water rates from the City of West Columbia, CWS's request for a USIR, the condemnation of

CWS's I-20 wastewater system by the Town of Lexington and the prospects for CWS to interconnect its Friarsgate system to a 208-qualifying wastewater system.⁸ He additionally provided information to the Commission regarding the status of certain litigation related to the Friarsgate plant, issues the Company had with its meter reading contractor, renewal of CWS' franchise agreement with York County, and CWS' response to complaints from the Dancing Dolphin Company in Beaufort County.⁹ In his Rebuttal Testimony, Mr. Cartin contested ORS' adjustment to late fee revenue as well as ORS's adjustment of legal fees incurred by the Company in defending an action brought by the Congaree Riverkeeper in Federal Court due to the Company's frequent overflows from its I-20 wastewater treatment plant into the Saluda River.¹⁰ He further testified that the Company believed that it was entitled to include in plant the costs of an Equalization Basin Liner ("EQ Liner") which ORS had denied on the basis that the EQ Liner project was not yet completed, installed, and used and useful.¹¹ Finally, Witness Cartin stated that the Company felt that it was entitled to recover expenditures, rejected by ORS, for the employment of a third-party engineering firm to oversee improvements to the Company's Friarsgate plant ordered by DHEC.¹² Mr. Cartin's Surrebuttal Testimony addressed just one issue – ORS' recommendation that the Commission order CWS to credit to customers in its rates going forward the value of the reduction in Federal Income Taxes¹³ since January 1, 2018.¹⁴

⁸ Tr. P. 301, ll. 1 – 19; PP. 301-306.

⁹ Tr. P. 306, ll. 3 – P. 310, l. 13.

¹⁰ Tr. P. 316, l. 1 – P. 317, 18.

¹¹ Tr. P. 318, l. 3 – P. 319, l. 2.

¹² Tr. P. 319, l. 3 – P. 320, l. 4.

¹³ Under the Federal Tax Cut and Jobs Act the maximum federal income tax rate for Corporations was reduced from 35% to 21% effective January 1, 2018.

¹⁴ Tr. PP. 321 - 325.

Witness Cartin presented the Company's opinion that such a credit would not benefit ratepayers as it would only "accelerate the Company's need for future rate relief."¹⁵

CWS Witness Gilroy, who is employed as the Vice President of Operations for CWS, presented Direct Testimony providing an overview of the Company's system, the drivers behind the current rate request, the improvements made by the Company during the test year, and CWS's plans for future investments and improvements to the CWS systems.¹⁶ In Rebuttal, Mr. Gilroy addressed the issues raised by the Forty Love HOA regarding sewer backups during rain events and stated that CWS and the HOA agreed to report to the Commission and ORS the findings of an engineering assessment to be conducted on the HOA system by September 30, 2018.¹⁷ Mr. Gilroy also provided testimony objecting to ORS's adjustment of sludge hauling expenses at CWS's Friarsgate and Watergate facilities in stating that the actual expenses during the test year were "known and measurable" and that ORS therefore should not have normalized these expenses.¹⁸ In "Responsive Testimony to Customer Concerns" Mr. Gilroy addressed numerous issues raised by the Company's customers, including the water quality concerns raised by customers in the River Hills community, problems associated with the water system in the Shandon subdivision, and the Company's procedures for the issuance of boil water advisories.¹⁹

Mr. Bob Hunter, the Financial Planning and Analysis Manager for CWS, provided Direct Testimony supporting CWS's application, including the alleged need for rate relief and a detailed description of the components of the Application and the pro forma adjustments made to the

¹⁵ Tr. P. 322, ll. 4 - 7; P. 325, ll. 17 - 18.

¹⁶ Tr. PP. 345 - 354

¹⁷ Tr. P. 363, l. 8 - P. 364, l. 10.

¹⁸ Tr. P. 364, l. 11 - P. 365, l. 12.

¹⁹ Tr. PP. 371 - 380.

Company's consolidated income statement.²⁰ He further summarized the proposed changes in the Company's water and sewer service rate schedules.²¹ In Rebuttal Testimony, Mr. Hunter presented several general objections to ORS's proposed adjustments including: the normalization of sludge hauling expenses and an adjustment to late fee revenues, and detailed at some length regarding the impact of the Federal Tax Cuts and Jobs Act on the Company's rates, including a proposal to gross-up property contributions in aid of construction.²²

CWS Witness Dylan D'Ascendis, a Director at ScottMadden, Inc. and a Certified Rate of Return Analyst, provided Direct Testimony offering his opinion regarding the appropriate capital structure and corresponding cost rates that he felt CWS should be afforded the opportunity to earn on its jurisdictional rate base. In sum, Mr. D'Ascendis recommended an overall rate of return between 8.60% and 8.86%, a debt to equity ratio to total capital 48.11% to 51.89% and a Return On Equity ("ROE") of between 10.45% and 10.95%.²³ In Rebuttal, Mr. D'Ascendis took issue with the testimony of ORS Witness Dr. Douglas Carlisle, specifically disagreeing with his recommended weighted average cost of debt, his use of multiple proxies for growth and his overall application of the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM").²⁴ Mr. D'Ascendis also disagreed with ORS's application of the Comparable Earnings Model ("CEM") and what Mr. D'Ascendis referred to as "his failure to reflect the risk

²⁰ Tr. P. 262, L. 18 – P. 264, l. 17.

²¹ Tr. P. 264, ll. 18 – 25.

²² Tr. P. 277, l. 17 – P. 281, l. 21.

²³ Tr. P. 395, ll. 10 – 16.

²⁴ Tr. P. 437, ll. 10 – P. 446, l. 9.

of CWS' relative small size in relation to the proxy group in his common equity cost rate recommendation."²⁵

ORS presented three witnesses at the hearing, Dr. Douglas Carlisle, Zachary Payne, and Matthew Schellinger as a panel. All three witnesses pre-filed both Direct and Surrebuttal Testimonies. Dr. Carlisle filed a revised version of his Direct Testimony, and both Mr. Schellinger and Mr. Payne filed revised versions of their Surrebuttal Testimony. All ORS witnesses pre-filed testimonies were read into the record and the Exhibits which were filed with and attached to the pre-filed Direct, Surrebuttal and Revised Surrebuttal Testimonies were offered into evidence and made a part of the record as Hearing Exhibits 14 through 18.

ORS Staff Economist Dr. Douglas Carlisle, a Certified Rate of Return Analyst, provided Revised Direct Testimony recommending an appropriate range for return on equity for CWS. In short, after a thorough analysis using three different methods to calculate a cost of equity for CWS, Dr. Carlisle recommended an ROE of 9.08%, resulting from an averaging of the three methods he employed: DCF (8.82%), CEM (8.89%), and CAPM (9.54%).²⁶ Dr. Carlisle used the capital structure claimed by the Company in its Application of 51.89% Equity and 48.11% Long-Term Debt.²⁷ However, Dr. Carlisle did adjust the Company's Cost of Debt from 6.60% to 6.58% due to the unfavorable terms of Long-Term Debt structured by the Company.²⁸ In his Surrebuttal Testimony, Dr. Carlisle addressed the criticisms of CWS Witness D'Ascendis. Specifically, Dr. Carlisle disagreed with Mr. D'Ascendis conclusions as to the characteristics of investors and his assertions that CWS ratepayers should pay for the 0.02% Long-Term Debt fee

²⁵ Tr. P. 46, l. 11 – p. 450, l. 9.

²⁶ Tr. P. 643, ll. 12 – 20; P. 647, ll. 12 – 16.

²⁷ Tr. P. 643, ll. 21 – 23; P. 649, ll. 22 – 23.

²⁸ Tr. P. 643, l. 23 – P. 644, l. 4; P. 649, l. 23 – p. 650, l. 1.

incurred by the Company regarding additional debt. Dr. Carlisle also highlighted both his and Mr. D’Ascendis use of historical data and financial analysts’ predictions in their computations. In conclusion, Dr. Carlisle pointed out that the principle difference between his and Mr. D’Ascendis analysis’ was Mr. D’Ascendis use of returns weighted by market capitalization of firms and Dr. Carlisle’s use of the geometric mean, or Compound Annual Growth Rate (“CAGR”). Dr. Carlisle asserts that compounding, and thus the use of a CAGR, is one of the most powerful considerations in finance and investing and that Mr. D’Ascendis counter use of an arithmetic mean inflates returns, thus boosting his recommended return in the present case.²⁹

ORS Senior Auditor Zachary Payne testified to the procedures used by the ORS Audit Department in performing its examination of the Application and supporting documentation provided by the Company to ORS.³⁰ Mr. Payne further set forth ORS’s findings and recommendations resulting from this examination. Included with his pre-filed Direct Testimony, Mr. Payne provided a series of exhibits, attached to his pre-filed Direct Testimony as “Audit Exhibit ZJP-1” through “Audit Exhibit ZJP-9”, detailing ORS’ computations and proposed adjustments to the Application.³¹ Mr. Payne also provided the Commission with pre-filed Revised Surrebuttal Testimony, making certain adjustments based on additional documentation provided by CWS subsequent to the filing of his Direct Testimony, and addressing issues raised in the Rebuttal Testimonies of CWS Witnesses Hunter, Cartin and Gilroy and specifically adjustments related to purchased water, sludge hauling expenses, rate case expenses, the Friarsgate EQ Liner and the impact of the Federal Tax Cuts and Jobs Act on the Company’s

²⁹ Tr. P. 668, line 5 – P. 671, l. 15.

³⁰ Tr. P. 729, ll. 5 – 16.

³¹ Hearing Exhibit 17.

rates.³² Exhibits supporting the ORS recommendations as adjusted were filed along with Mr. Payne's pre-filed Revised Surrebuttal Testimony as "Revised Audit Surrebuttal Exhibit ZJP-1" through "Revised Audit Surrebuttal Exhibit ZJP-9".³³

Based on documentation received after ORS's Direct Testimony had been filed, Mr. Payne in his Revised Surrebuttal Testimony acknowledged that ORS had not had sufficient time prior to the hearing to review updated information provided by the Company regarding its allowable purchased water expenses or updated rate case expenses.³⁴ Mr. Payne provided further support for ORS' position regarding its normalization of sludge hauling expenses and exclusion of the Friarsgate EQ Liner from ORS's rate base calculation due to it not being completed and installed, and thus not used and useful or providing any service to CWS' customers³⁵. He acknowledged that ORS and the Company agreed to certain changes resulting from the Tax Cuts and Jobs Act, including the creation of an excess ADIT liability split into protected and unprotected components, and the amortization of the unprotected excess ADIT over three years and the protected ADIT over 55 years, recognizing that there may need to be a true up in a future docket.³⁶ Mr. Payne pointed out, however, that the two Parties did not agree as to the treatment of taxes collected at the old 35% rate between January 1, 2018, when the new 21% corporate rate became effective, and May 10, 2018 which is the anticipated date of a Final Order of the Commission in this case.³⁷ Mr. Payne set forth ORS' position that \$241,875, representing the difference between the 35% and 21% federal tax rates, collected from ratepayers since January

³² Tr. P. 751, l. 19 – p. 752, l. 7.

³³ Hearing Exhibit 18.

³⁴ Tr. P. 752, ll. 8 – 18.

³⁵ Tr. P. 752, l. 19 – P. 753, l. 12; P. 754, ll. 8 – 18.

³⁶ Tr. P. 754, l. 19 – P. 755, l. 22.

³⁷ Tr. P. 755, ll. 16 – 18; P. 757, l. 8 – P. 758, l. 8.

1st should be returned to those ratepayers over three years with the unamortized balance to be treated as a regulatory liability and included as a *reduction* to rate base.³⁸ Mr. Payne stated that the specifics of ORS' position regarding these taxes is provided in the testimony of ORS Witness Schellinger.

ORS Witness Matthew Schellinger is employed by ORS as a Regulatory Analyst in the Utility Rates and Services Division. His Direct Testimony offered the results of ORS's business office compliance review and facility site inspections. Mr. Schellinger also reviewed CWS' financial statements and performance bond documents. He offered ORS's opinion regarding a number of adjustments to CWS's Application including adjustments to test year and proposed revenue, customer growth, changes to the Company's tariff and non-recurring charges, the transfer of customers of the I-20 System to the Town of Lexington, the elimination of the Company's non-revenue water deferral account, ORS's position on the USIR, and CWS's purchased water expense. Mr. Schellinger also discussed ORS' investigation of complaints against the Company by customers in Forty Love Point and the Dancing Dolphin Company in Beaufort County.³⁹ Mr. Schellinger testified that ORS opposed the Company recovering from ratepayers the litigation costs, penalties and settlements related to CWS's system overflows and raw sewage releases into the Saluda River from the I-20 System. Mr. Schellinger also discussed the need for expanded vacancy surveys for the Company to ensure that customers were being identified and billed in a timely manner.

In his Revised Surrebuttal Testimony, Mr. Schellinger addressed issues raised in the Rebuttal Testimony of CWS witnesses Cartin and Hunter. Specifically, Mr. Schellinger stated

³⁸ *Id.*; Tr. P. 757, ll. 15 – 17.

³⁹ Tr.P. 16, l. (Schellinger Direct, P. 14, l. 18 – P. 17, l. 9.

that ORS did not agree with CWS's position that the \$998,606 in I-20 litigation costs benefitted ratepayers.⁴⁰ In responses to ORS discovery requests regarding these costs, the Company identified five different legal actions for which these expenses were incurred: Congaree River Keeper v. CWS (Federal Court), Town of Lexington v. CWS (Condemnation action), DHEC denial of I-20 Permit appeal (S.C. Administrative Law Court), Town of Lexington challenge to DHEC I-20 Interconnection Order (S.C. Administrative Law Court), and CWS v. EPA (Federal Court).⁴¹ The Company did not assign any of the invoices provided to ORS to these five actions. Mr. Schellinger testified for ORS as to the specific reasons ORS objected to litigation costs being passed on to ratepayers for each of the five actions listed above.⁴²

Mr. Schellinger testified regarding ORS's adjustment to remove \$306,552 from the Company's gross plant in service related to costs incurred for engineering services performed at the Friarsgate Wastewater Treatment Facility ("WWTF"). Witness Schellinger stated that the six invoices from WK Dickson & Co., Inc. ("WK Dickson") which total \$306,552 lack sufficient detail to determine the scope of the work performed and that based on project numbers contained on the invoices the work was related to the implementation of two DHEC Consent Orders issued due to the Company's violation of its National Pollutant Discharge Elimination system ("NPDES") permit.⁴³ ORS took the position the services which WK Dickson was hired to perform were attributed to day-to-day operations the Company should already have performed

⁴⁰ Tr. P. 710, ll. 15 – 18.

⁴¹ Tr. P. 711, ll. 3 – 8.

⁴² Tr. P. 71, l. 3 -- P.713, l. 12.

⁴³ Tr. P. 713, l. 13 -- P. 714, l. 4.

and payment for those operations were already included in the Company's rates charged to customers.⁴⁴

Mr. Schellinger also took issue with CWS's proposal regarding implementation of all of the known effects of the Federal Tax Cuts and Jobs Act which, in part, lowered the federal corporate income tax rate from 35% to 21% effective January 1, 2018. ORS calculated an estimate of the revenue amount billed to CWS customers by the Company effective January 1, 2018 through the anticipated date of this Commission Order to be \$241,875.⁴⁵ ORS asked the Commission to Order the Company to place this amount in a regulatory liability account to be amortized over three years. ORS contends that this unanticipated and non-recurring change in the federal tax rate constituted a known and measurable decrease in the Company's expenses and the adjustment proposed by ORS is prospective in nature.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. BACKGROUND

CWS is an investor-owned utility providing water supply/distribution services and wastewater collection/treatment services.⁴⁶ A subsidiary of Utilities, Inc., CWS's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class A water and wastewater utility according to water and sewer revenues reported in its Application for the twelve (12) months ending August 31, 2017 ("Test Year").⁴⁷

⁴⁴ Tr. P. 716, ll. 1 – 12.

⁴⁵ Tr. P. 718, ll. 4 – 22.

⁴⁶ Tr. P. 692, ll. 9 – 19.

⁴⁷ *Id.*

The Commission-approved service area for CWS includes portions of Abbeville, Aiken, Anderson, Beaufort, Cherokee, Georgetown, Greenville, Greenwood, Lexington, Orangeburg, Richland, Saluda, Sumter, Williamsburg, Union, and York counties.⁴⁸ As of the end of the Test Year, ORS determined that CWS was providing water supply/distribution services to 16,323 residential and commercial customers and wastewater collection/treatment services to 13,575 residential and commercial customers.⁴⁹

CWS currently provides water supply and distribution-only services to its residential and commercial customers.⁵⁰ Water is provided to customers by CWS-operated wells or by third-party water providers.⁵¹ During the Test Year, CWS purchased water to distribute to its customers from governmental entities including the City of West Columbia, City of Columbia, Town of Lexington, Lexington Joint Municipal Water and Sewer Commission, Hammond Water District, Sandy Springs Water District, West Anderson Water District, Electric City Utilities, City of Rock Hill, Starr-Iva Water & Sewer District, and York County.⁵² There are one hundred and five (105) water supply and distribution-only systems with active South Carolina Department of Health and Environmental Control (“DHEC”) Drinking Water Permits operated by CWS.⁵³ Required operator logs were kept at all facilities inspected by ORS.⁵⁴ As required by the Commission’s regulations, general housekeeping items, including system entry points, access

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ Tr. P. 693, ll. 5 – 18.

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

roads and signage, observed by ORS during the inspection were satisfactory.⁵⁵ Potable water and irrigation consumption is metered to all customers.⁵⁶

CWS operates a total of nineteen (19) wastewater collection and treatment systems.⁵⁷ In addition, CWS operates ten (10) wastewater collection-only systems for which it collects wastewater from its customers and transports the wastewater to another entity for treatment and disposal.⁵⁸ Wastewater treatment and disposal is provided to CWS collection-only customers by Beaufort-Jasper Water and Sewer Authority (“BJWSA”), Richland County, Town of Chapin, Renewable Water Resources ReWa, Georgetown County Water & Sewer District, and York County.⁵⁹

B. CWS’S APPLICATION

CWS’s current schedule of rates and charges for customers was approved by Commission Order No. 2015-876, issued in Docket No. 2015-199-WS. The Company proposes a Test Year of September 1, 2016, to August 31, 2017.

CWS seeks to accomplish two primary goals in its Application: (1) increase its monthly water and sewer service revenues; and (2) revise certain tariff provisions including: an amendment to its cross-connections inspection conditions, increase its Water Meter installation charge from \$35 to \$45, and a change in language to limit the liability of the Company for damages arising out of any interruption of service. Per the Company’s Application, CWS

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ Tr. P. 694, ll. 10 – 16.

⁵⁸ *Id.*

⁵⁹ *Id.*

requested \$2,312,034 and \$2,284,616 increases for water and sewer revenues respectively.⁶⁰ Per ORS, the Company's proposed increase in Total Operating Revenues, recalculated by ORS Witness Payne to include ORS's calculation of taxes and customer growth associated with the proposed increase, is \$4,668,803 based on current total operating revenues of \$21,119,639 and after proposed increase operating revenues of \$24,610,475.⁶¹ The Company proposed a detailed schedule of rates and charges encompassing two territories as well as both water supply and water distribution and sewer collection and treatment and collection only customers. The proposed rates and charges were attached as Exhibit A to the Application. In addition to the proposed increases in water and sewer charges the company also sought to institute a USIR as well as the changes to its Cross-Connection conditions and Water Meter Installation charge.

C. RATE MAKING METHODOLOGY AND JURISDICTION

Generally, the Commission has wide latitude to determine an appropriate rate-setting methodology. *Heater of Seabrook, Inc. v. Public Service Comm'n*, 324 S.C. 56, 478 S.E.2d 826 (1996). In the present case, CWS has chosen to request that the Commission determine the reasonableness of its proposed rates in accordance with the rate base methodology. CWS presented opinion testimony recommending an appropriate capital structure, overall rate of return, and range of return on equity. ORS also provided testimony adopting the Company's capital structure and making a counter recommendation as to an appropriate cost of debt, rate of return, and return on equity. There was no evidence presented by any parties supporting the use of any other ratemaking methodology. Accordingly, the Commission will utilize the rate base methodology in setting CWS's rates in this case.

⁶⁰ Application, Schedule B

⁶¹ Hearing Exhibit 17.

The Commission has the statutory mandate under S.C. Code Ann. §58-5-210 to fix just and reasonable standards and, therefore, just and reasonable rates.

The Company is a public utility subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §§ 58-3-140(A) and 58-5-210 (2015). The Commission requires the use of an historic twelve-month test period under S.C. Code Ann. Regs. 103-823.A(3) (2012). These findings of fact and conclusions of law are informational, procedural and jurisdictional in nature and are not contested by any party of record in this proceeding.

D. TEST YEAR

The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Pub. Serv. Comm'n*, 328 S.C. 222, 493 S.E.2d 92 (1997). The historical test year may be used as long as adjustments are made for any known and measurable out-of-period changes in expenses, revenues, and investments. *Id.* CWS's financial statements in this case used a test year ending August 31, 2017. ORS utilized the same test year in conducting its examination. Given that this test year ended within four months of the filing of CWS's Application, and since no other test year was proposed, the test year ending August 31, 2017, is appropriate and will be used in this case.

E. ADJUSTMENTS TO REVENUES

1. EXCESS FEDERAL INCOME TAX COLLECTED

CWS reported per book test-year revenues of \$21,119,639 in its Application. ORS calculated CWS's total operating revenues as \$20,022,297 after accounting and pro forma adjustments.⁶² These adjustments included ORS's annualization of water and sewer service revenues for the test year, uncollectible accounts, and the amortization of excess income tax collected by the utility since the implementation of the Federal Tax Cuts and Jobs Act on January 1, 2018.⁶³ CWS did not oppose ORS's adjustment to annualize water and sewer service revenues but did object to ORS's position⁶⁴ to adjust revenues and rate base for the impact of the Federal Tax Cuts and Jobs Act from January 1, 2018 to May 10, 2018. CWS took that position that it would have had to have been over-earning during this period in order to trigger what it defined as a "refund" to its customers and that any benefit to ratepayers would be "illusory" as should the Commission Order that these benefits be passed on to ratepayers it would "accelerate the Company's need for future rate relief."⁶⁵ CWS Witness Cartin asserts that returning this excess income tax to ratepayers constitutes retroactive ratemaking. We disagree that prohibiting the Company from realizing a windfall due to a change in federal tax laws constitutes retroactive ratemaking. We also have difficulty accepting the Company's argument that a decrease of \$80,625 in annual revenues will somehow affect the Company's decision on when they will file their next request for an increase in rates.

⁶² Hearing Exhibit 18 (Revised Audit Surrebuttal Exhibit ZJP-1 – Combined Operations).

⁶³ *Id.* and Hearing Exhibit 18 (Revised Audit Surrebuttal Exhibit ZJP-5 – P. 1)

⁶⁴ Hearing Exhibit 16 (Surrebuttal Exhibit MPS-5), Tr. P. 718, ll. 4–22.

⁶⁵ Tr. P. 325, ll. 13 – 18.

As shown in ORS Revised Surrebuttal Exhibit MPS-5 of ORS Witness Schellinger, ORS calculated \$241,875 of revenue attributed to the federal income tax change generated from January 1, 2018 through the expected date of the Commission Order in this case of May 10, 2018.⁶⁶ ORS recommends that the Company be ordered to place this amount into a regulatory liability account and amortized over three years.⁶⁷

We view this revenue, which we believe should be credited to ratepayers in a prospective manner, not to be an earnings issue, as argued by CWS, but rather a cash flow issue. The funds at issue have been collected by CWS from its ratepayers in order to pay a federal tax obligation of 35%. As the maximum federal tax rate was reduced to 21% effective January 1, 2018, some of the taxes collected by the utility from its ratepayers will never be paid to the federal government. CWS is essentially arguing that it is entitled to a windfall of \$241,875 due to a change in federal law. We disagree. To permit the Company to retain revenues collected for the purpose of paying federal taxes that it will never pay, at their customers' expense, is neither fair nor just. CWS is not entitled to a windfall profit due to a change in law which should rightfully benefit ratepayers.

As to the issue of retroactive ratemaking, CWS witness Hunter testified on cross-examination that the change in the federal tax law was not anticipated when rates for the Company were set in 2015 and is a one-time, non-recurring event.⁶⁸ This is therefore an extraordinary event and thus a permissible adjustment. While retroactive ratemaking is generally prohibited, “(t)here is an exception to this rule, however, for expenses deemed ‘extraordinary.’ An extraordinary expense is one that is unanticipated and non-recurring.” *Porter v. South Carolina PSC*, 328 S.C. 222,

⁶⁶ Tr. P. 718, ll. 15 – 22; Hearing Exhibit 16, Revised Surrebuttal Exhibit MPS-5.

⁶⁷ *Id.*

⁶⁸ Tr. p. 500, l. 23 – P. 502, l. 2.

231, 493 S.E.2d 92, 97 (1997), citing *Popowsky v. Pa. Pub. Util. Comm’n*, 164 Pa. Comm’w. 338, 642 A.2d 648 (Pa. Comm’w Ct. 1994) and *Stewart v. Utah Pub. Serv. Comm’n*, 885 P.2d 759 (Utah, 1994).

2. LATE FEES

CWS additionally objected to ORS’s adjustments to Miscellaneous Revenues, specifically the adjustment to late fees recommended in ORS Witness Schellinger’s Direct Testimony.⁶⁹ However, as explained by Witness Schellinger in Revised Surrebuttal Testimony, while ORS adjusted late fee revenue to reflect the anticipated impact of the Company’s proposed rate increase, it also made a corresponding adjustment to the Company’s uncollectible accounts. This second adjustment, which the Company did *not* object to, is to the Company’s benefit; and essentially balances out the adjustment to late fee revenue. We find that these adjustments are known, measurable, and within a degree of reasonable certainty, and are therefore, proper. *See, Porter v. S.C. Pub. Serv. Comm’n*, 328 S.C. 222, 493 S.E.2d 92 (1997).

F. ADJUSTMENTS TO EXPENSES

There were essentially four categories of expenses at issue: (1) sludge hauling expenses, (2) legal cost amortization, (3) purchased water deferral balance, and (4) updated rate case expenses. The Commission adopts the position of ORS as to both the sludge hauling expenses and legal cost amortization. As to the purchased water deferral balance and updated rate case expenses, ORS witness Payne testified at the hearing that ORS had reviewed the additional documentation provided by CWS as to purchased water and recommended a purchased water

⁶⁹ Tr. P. 716, l. 21 – p. 717, line 10.

deferral balance of \$668,274.⁷⁰ Mr. Payne additionally testified that ORS did not object to the Company providing updated rate case expenses for inclusion in this case, subject to ORS verification and make corresponding adjustments to allow the documented additional purchased water expense and rate case expenses updated through the date of the hearing.⁷¹ Subsequent to the hearing, the Company provided ORS with updated current rate case expenses. ORS verified total current and unamortized prior rate case expenses for the Company of \$296,068. As recommended by Witness Payne, rate case expenses are to be amortized over a three-year period. The net result of the Commission's conclusions regarding the above four items results in CWS's allowable total operating expenses for the test year (after pro forma and accounting adjustments) being \$17,410,766.

1. SLUDGE HAULING EXPENSES

ORS adjustment 9d was proposed to normalize sludge hauling expenses for the Friarsgate and Watergate business units.⁷² In reviewing the Company's books and records, ORS noted that the costs for sludge hauling for the test year was significantly higher than in the preceding two years ending August 31st for both the Friarsgate and Watergate WWTP.⁷³ ORS therefore normalized these expenses, resulting in an adjustment of (\$96,892) to the Company's expenses. The Company objected to this adjustment, arguing that as the actual expenses for the test year were both known and measurable and prudently incurred, that they should be allowed by the Commission.⁷⁴ However, on cross-examination CWS Witness Gilroy testified that CWS was

⁷⁰ Tr. P. 724, l. 17 – p. 725, l. 4; P. 752, ll. 8-18.

⁷¹ Tr. P. 767, l. 23 – P. 768, l. 5.

⁷² Tr. P. 752, ll. 22-23.

⁷³ Tr. P. 752, l. 22 – P. 753, l. 8.

⁷⁴ Tr. P. 364, ll. 15-20.

currently working to establish an interconnection between the Friarsgate WWTP and the City of Columbia and that when this interconnection is completed the sludge hauling costs for the Friarsgate plant will be \$0.⁷⁵

Based on the unusually high costs during the test year and the uncertainty of costs going forward, we find that the argument of ORS to be compelling and adopt the proposed adjustment to the Company's sludge hauling expenses. Normalization of extraordinary expenses is a generally accepted rate making principle which has been adopted in South Carolina. As stated in *Porter v. S. C. Pub. Serv. Comm'n*, "The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. Where an unusual situation exists resulting in test year figures that are atypical and thus do not indicate future trends, the commission should adjust the test year data." 328 S.C. 222, 228, 493 S.E.2d 92, 96 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992).

2. AMORTIZED NON-RATE CASE LEGAL EXPENSES

ORS disallowed certain financial and litigation expenses related to CWS's I-20 plant totaling \$998,606, amortized over 66.67 years resulting in an adjustment to operation costs of \$14,979.⁷⁶ The Company claims that these expenses were legitimately incurred by the Company for the benefit of its ratepayers. ORS counters that these expenses are not reasonably or prudently incurred and failed to benefit CWS's ratepayers.⁷⁷ ORS further justified this adjustment on the grounds that in response to a request for information which ORS served on

⁷⁵ Tr. P. 481, ll. 10-17.

⁷⁶ Tr. P. 278, ll.1-6 and P. 316, l. 12 – P. 317, l. 18.

⁷⁷ Tr. P. 710, l. 12 -- P. 713, l. 12.

CWS that the Company failed to allocate these expenses to specific legal actions. In total there appear to be at least five separate legal actions generally identified by CWS as having incurred these expenses.⁷⁸ ORS asserted that it was unable to assign specific costs to each of these five legal actions based on the information contained in the invoices which they were provided.

It is apparent from the record that the majority of these legal action involved CWS having to defend itself from actions brought against it by various entities for its failure to properly operate and maintain the I-20 sewer system and numerous violations of its NPDES Permit.

We agree with ORS that ratepayers should not be forced to pay for the legal expenses of CWS in defending itself from actions where the Company did not adequately operate and maintain its plant. Ratepayers already have paid through rates for the Company to provide safe, reliable, and adequate service and the Company has a corresponding obligation to operate and maintain its facilities in compliance with the law. To pass these costs on to ratepayers and to allow the Company to earn a return on these costs to the benefit of the owners is unreasonable. Further, as the Company failed to directly assign the costs to specific legal actions, it is impossible to determine which, if any, of these costs might properly be termed as benefiting ratepayers. Certainly, at a minimum, those legal fees incurred in the condemnation action on the I-20 WWTP may at some point be recoverable from the Town of Lexington. Therefore, to award those costs to CWS now may lead to the Company to gain a double recovery on such costs. We therefore concur with the ORS adjustment.

⁷⁸ *Id.*

G. RATE BASE ADJUSTMENTS

There were three adjustments to rate base made by ORS that were objected to by the Company: the removal of the EQ Liner at the Friarsgate WWTP, an adjustment to remove certain engineering expenses of WK Dickson incurred by the Company for work performed at the Friarsgate plant, and the creation of a regulatory liability for Excess Tax Collections.

1. THE FRIARSGATE EQUALIZATION BASIN LINER

ORS recommended exclusion from rate base of \$1,081,375 related to the installation of the EQ Liner at the Company's Friarsgate plant. The Company contends that they have prepared the site for the installation of the new EQ liner and are therefore entitled to include the costs attributed to site preparation and remediation in base rates.⁷⁹ ORS counters that as the new EQ liner project has not been completed but remains under construction, the EQ Liner is not used and useful or providing service to customers, and therefore costs related to the EQ Liner project should be excluded from the calculation of rates to be charged CWS customers.⁸⁰ On cross-examination, CWS witness Gilroy admitted that the new EQ liner had not yet been installed at the Friarsgate plant as of the date of the hearing and is not yet in operation.⁸¹

"Used and useful" is a common test used by this Commission, and most other regulatory commissions, in determining the propriety of including specific items in rate base. As stated in the publication *Accounting for Public Utilities* "(o)nly plant currently providing or capable of providing utility service to the consuming public is allowed in the rate base." §4.03, pg. 4-5 (Matthew Bender & Company, 2017). Both the regulatory principle and facts presented here

⁷⁹ Tr. P. 318, l. 3 - P. 319, l. 2.

⁸⁰ Tr. P. 754, ll. 8 – 18.

⁸¹ Tr. P. 478, ll. 13-18; p. 479, ll. 2-4.

clearly support the ORS recommendation not to include in rate base the costs associated with the EQ liner, which the company, by its own admission, is not yet installed and is therefore incapable of providing service to ratepayers. We therefore agree with ORS's recommendation to exclude \$1,081,375 from rate base attributable to the Friarsgate WWTP EQ Liner.

2. WK DICKSON INVOICES

ORS has also proposed an adjustment of \$306,552 to eliminate from rate base certain invoices of the WK Dickson for work performed at the Friarsgate WWTP. As detailed in the Revised Surrebuttal Testimony of ORS Witness Schellinger, ORS adjustment 32D recommends the removal of the \$306,552 contained in six invoices of the WK Dickson which CWS recorded as gross plant in service.⁸² ORS based this recommendation on the fact that the six invoices provided insufficient detail for ORS to determine in its audit the specific work performed by WK Dickson for CWS at Friarsgate.⁸³ ORS additionally rejected these invoices for inclusion in rate base because the invoices contained a project number which indicated the work was performed to implement two DHEC Consent Orders⁸⁴ which had been executed due to CWS's violation of the terms of its NPDES Permit. ORS Witness Schellinger's Revised Surrebuttal Testimony provided the Commission with a detailed review of the invoices⁸⁵, which contained insufficient information to allow ORS to verify the work performed beyond "Phase 01 Friarsgate WWTF Consent Order Support." ORS Witness Schellinger further detailed ORS's position that work performed by WK Dickson was attributed to day-to-day operations required by the DHEC Consent Order. These daily functions performed by a third-party under the terms of a Consent

⁸² Tr, P. 713, l. 17 – P. 714, l. 15.

⁸³ *Id.*

⁸⁴ *Id.* and Hearing Exhibit 16, Revised Surrebuttal Exhibit MPS-2.

⁸⁵ *Id.* and Hearing Exhibit 16, Revised Surrebuttal Exhibit MPS-3.

Order should not be passed to the ratepayers, who have already paid for the adequate operation and maintenance of the Company's facilities through current rates.⁸⁶

We find that ORS is justified in making this adjustment. A review of the invoices, which were filed as an exhibit to Witness Schellinger's Revised Surrebuttal Testimony, demonstrates that the only information provided as to the type of work performed is "Friarsgate WWTF Consent Order Support." CWS was required to hire a licensed engineering firm under the terms of the Consent Order which it entered with DHEC as a result of numerous violations of its NPDES Permit. There is no evidence in the record that the work performed by WK Dickson provided CWS ratepayers with any benefit beyond that which they should expect from the Company in exchange for the rates paid to CWS. CWS seeks to pass all costs on to its ratepayers, even in cases where those costs are incurred to remedy the Company's own failure to provide service in compliance with its NPDES permit. We disagree with that position.

CWS Witness Cartin's statements that "CWS worked collaboratively with DHEC...for the benefit of our customers"⁸⁷ and that these costs were "prudently incurred costs because they were required by the Consent Order"⁸⁸ ignores the fact that the entire reason for the Consent Order, and corresponding costs, is CWS's operation of the Friarsgate WWTF in violation of its NPDES Permit. The Consent Order *forced* the Company to hire an independent operator and a South Carolina Registered Professional Engineer, and because these costs were the result of the operation of the plant and the violations of the NPDES Permit, we conclude that CWS's

⁸⁶ Tr. P. 714, l. 16 -- P. 716, l. 20.

⁸⁷ Tr. P. 319, ll. 8 – 10.

⁸⁸ Tr. P. 319, ll. 18 – 19.

customers should not be obliged to pay these costs. We therefore find ORS's adjustment 32D is proper.

3. EXCESS TAX COLLECTION LIABILITY

In connection with its recommendations related to the effects of the Tax Cuts and Jobs Act, ORS proposes the creation of a regulatory liability and that the calculated amount of excess revenue attributed to the change in Federal tax rates be amortized over three years to coincide with the timing of the proposed amortization schedules for both rate case expenses and unprotected ADIT.⁸⁹ For the reasons discussed earlier in this Order with regard to the adjustment to revenues on this issue, we approve the creation of this regulatory liability and instruct the Company to account for excess federal taxes through a regulatory liability.

H. RATE OF RETURN

Both ORS Witness Carlisle and CWS Witness D'Ascendis presented expert testimony regarding an appropriate rate of return. We find the methodology and analysis performed by ORS Witness Carlisle, which used an average of three different models, to be more thorough and compelling and therefore adopt the recommended ROE proposed by Dr. Carlisle of 9.08%

In reaching his recommendation, Dr. Carlisle used a Capital Structure, as proposed by the Company, with a ratio of 51.89% Equity and 48.11% Long-Term Debt. This Capital Structure includes a 6.58% Debt Rate. While agreeing with almost all the 6.60% Debt Rate proposed by CWS, Dr. Carlisle disagreed with 0.02% which represents a fee associated with the debt flotation

⁸⁹ TR. P. 718, ll. 15-22.

by the parent company to CWS, which Dr. Carlisle has concluded has worked to the detriment of CWS ratepayers⁹⁰.

Dr. Carlisle used three models to reach his recommended ROE: Discounted Cash Flow, Comparable Earnings, and Capital Asset Pricing Model. These three models, which Dr. Carlisle provided detailed testimony in explaining, produced indicated ROEs of 8.82%, 8.89%, and 9.54%, respectively.⁹¹ These three analyses yielded an average of 9.08% which was Dr. Carlisle's recommended ROE⁹². Dr. Carlisle's testimony is evidence of record to support the Commission's finding that an ROE of 9.08% is fair and reasonable both for CWS and its ratepayers.

I. APPROVED RATES

In accordance with the above finding conclusions, the Application of the Company and the testimony in the record of this case, the Commission approves the rates and charges contained in the attached **Exhibit A**.

IV. CONCLUSION

Based upon the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Exhibit A as being just and reasonable.

IT IS THEREFORE ORDERED THAT:

⁹⁰ Tr. P. 649, l. 21 - P. 650, l. 9.

⁹¹ Tr. P. 650, l. 10 - P. 654,
l. 13.

⁹² Tr. P. 647, ll. 12 – 15 and the table on the page.

1. The rates and charges attached on Exhibit A are approved for service rendered on or after May 10, 2018, and this rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann § 58-5-240 (2015).

2. The additional annual revenues that the Company is entitled to the opportunity to earn produces a Return on Equity of 9.08% and an operating margin of 19.26%.

3. Should the approved schedule not be placed into effect before three months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.

4. The Company shall close the regulatory liability account associated with non-revenue water which was previously approved in Order No. 2015-876.

5. Vacancy surveys that are not entirely reliant on Customer Care & Billing (“CC&B”) shall be conducted at least annually by CWS beginning on the first anniversary of this orders and the results shall be reported to ORS and the Commission.

6. CWS shall maintain its books and records for its operations in accordance with the NARUC Uniform System of Accounts for Class A utilities, as adopted by the Commission.

7. CWS shall continue to maintain a performance bond in the amount of \$350,000 for its water operations and a performance bond in the amount of \$350,000 for its wastewater operations.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Swain Whitfield, Chairman

ATTEST:

Randy Randall, Vice-Chairman

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS
WATER

Service Territory 1

Monthly Charges - Water Supply Customers Only

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

Residential

Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit:

\$ 15.16 per unit

Residential Commodity Charge:

\$ 5.89 per 1,000 gal.
or 134 cft.

Commercial

Base Facilities Charge
by meter size:

5/8" meter *	\$ 15.16 per unit
3/4" meter	\$ 15.16 per unit
1" meter	\$ 39.45 per unit
1.5" meter	\$ 78.92 per unit
2" meter	\$ 126.26 per unit
3" meter	\$ 236.75 per unit
4" meter	\$ 394.69 per unit
8" meter	\$ 1,212.79 per unit

Commercial Commodity Charge:

\$ 5.89 per 1,000 gal.
or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

Residential

Base Facilities Charge per single-family house, condominium, mobile home, or apartment unit:

\$ 15.16 per unit

Residential Commodity Charge:

\$ 7.14 per 1,000 gal.
or 134 cft.

Exhibit A

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

Commercial

Base Facilities Charge

by meter size:

5/8" meter *	\$	15.16 per unit
3/4" meter	\$	15.16 per unit
1" meter	\$	39.45 per unit
1.5" meter	\$	78.92 per unit
2" meter	\$	126.26 per unit
3" meter	\$	236.75 per unit
4" meter	\$	394.69 per unit
8" meter	\$	1,212.79 per unit

Commercial Commodity Charge:	\$	7.14 per 1,000 gal. or 134 cft.
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***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

Service Territory 2

Monthly Charges - Water Supply Customers

Where water is supplied by wells owned and operated by the Utility, the following rates apply:

Residential

Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:

\$ 27.74 per unit

Residential Commodity Charge:

\$ 9.96 per 1,000 gal.
or 134 cft.

Commercial

Base Facilities Charge
by meter size

5/8" meter* \$ 27.74 per unit

1" meter \$ 77.22 per unit

1.5" meter \$ 141.90 per unit

3" meter \$ 484.23 per unit

Commercial Commodity Charge

\$ 9.96 per 1,000 gal.
or 134 cft.

Monthly Charges - Water Distribution Customers Only

Where water is purchased from a governmental body or agency or other entity for distribution and resale by the Utility, the following rates apply:

Residential

Base Facilities Charge per single-family house, condominium, mobile home or apartment unit:

\$ 27.74 per unit

Residential Commodity Charge:

\$ 11.28 per 1,000 gal.
or 134 cft.

Commercial

Base Facilities Charge by meter size:

5/8" meter * \$ 27.74 per unit

1" meter \$ 77.22 per unit

1.5" meter \$ 141.90 per unit

3" meter \$ 484.23 per unit

Commercial Commodity Charge:

\$ 11.28 per 1,000 gal.
or 134 cft.

***A "Fire Line" customer will be billed a monthly base facilities charge of a 5/8" meter or at the rate of any other meter size used as a detector.**

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS
WATER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

A. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

B. Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

C. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

D. When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

E. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

F. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

G. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers or others and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts.

H. Cross-Connection Inspection

Any customer installing, permitting to be installed, or maintain any cross connection between the Utilities water system and any other non-public water system, sewer, or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended for time to time. Such a customer shall have such cross connection inspected by a licensed certified tester and provide to Utility a copy of written inspection report indicating the back-flow device is functioning properly and testing results submitted by the tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later June 30th of each year for required commercial customers and no later than June 30th of every other year for required residential customers. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill. If after inspection and testing by the Utility's certified tester, the back-flow device fails to function properly, the customer will be notified and given a 30 day period in which to have the back-flow device repaired or replaced with a subsequent follow-up inspection by a licensed certified tester indicating the back-flow device is functioning properly. Failure to submit a report indicating the back-flow device is functioning properly will result in discontinuation of water service to said customer until such time as a passing inspection report is received by Utility.

I. A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

Schedule of Rates and Charges**Carolina Water Service, Inc.*****Docket No. 2017-292-WS***

I. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing water utilities.

2. Non-Recurring Charges

A. Water Service Connection (New connections only) \$300 per SFE

B. Plant Impact Fee (New connections only) \$400 per SFE

The Plant Capacity Fee reflects the portion of plant capacity which will be used to provide service to the new customers as authorized by Commission Rule R. 103-702.13. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing water production, treatment and/or distribution facilities that are essential to provide adequate water service to the new customer's property.

C. Water Meter Installation - 5/8 inches x 3/4 inches meter \$45.00

All 5/8 inch x 3/4 inch water meters shall meet the Utility's standards and shall be installed by the Utility. A one-time meter fee of \$45 shall be due upon installation for those locations where no 5/8 inch x 3/4 inch meter has been provided by a developer to the Utility.

For the installation of all other meters, the customer shall be billed for the Utility's actual cost of installation. All such meters shall meet the Utility's standards and be installed by the Utility unless the Utility directs otherwise.

D. Customer Account Charge – (New customers only) \$30.00

A one-time fee to defray the costs of initiating service.

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R.103-732.5, a reconnection fee shall be due in the amount of \$40.00 and shall be due prior to the Utility reconnecting service.

F. Tampering Charge: In the event the Utility's equipment, water mains, water lines, meters, curb stops, service lines, valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

SEWER

Service Territory 1 and 2

(Former customers of Carolina Water Service, Inc., Utilities Services of SC, Inc. and United Utility Companies, Inc.)

Monthly Charges – All Sewer Customers

For all sewerage services provided by the Utility, the following rates apply:

Residential - charge per single-family house, condominium, villa, or apartment unit:	\$	62.45 per unit
Mobile Homes:	\$	45.56 per unit
Commercial:	\$	62.45 per SFE*
The Village Sewer Collection:	\$	32.48 per SFE*

Commercial customers are those not included in the residential, mobile homes, or Village Sewer Collection categories above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

* Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

SEWER SERVICE
TERMS AND CONDITIONS
AND
NON-RECURRING CHARGES

1. Terms and Conditions

A. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

B. The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

C. Billing Cycle

Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.

D. Toxic and Pretreatment Effluent Guidelines

The utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

E. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, and pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has

Schedule of Rates and Charges

Carolina Water Service, Inc.

Docket No. 2017-292-WS

for any reason restricted the Utility from adding additional customers to the serving sewer system.

In no event will the Utility be required to construct additional sewer treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

F. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers or others and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts. Included in this classification are sewer service connection charges and plant impact fees.

G. A Single Family Equivalent ("SFE") shall be determined by 6 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service, plant impact fee and tap fee. The Company shall have the right to request and receive water usage records from the water provider to its customers. In addition, the Company shall have the right to conduct an inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Company shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

H. The liability of the Company, its agents and employees for damages arising out of interruption of service or the failure to furnish service, whether caused by acts or omission, shall be limited to those remedies provided in the Public Service Commission's rules and regulations governing wastewater utilities.

2. Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for the pumping tank and will include \$150.00 as a separate item in the next regular billing to the customer.

Schedule of Rates and Charges
Carolina Water Service, Inc.
Docket No. 2017-292-WS

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement as a separate item in the next regular billing to the customer and may be paid for over a one-year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

3. Non-recurring Charges

A. Sewer Service Connection (New connections only) \$300 per SFE

B. Plant Capacity Fee (New connections only) \$400 per SFE

The Plant Capacity Fee shall be computed by using South Carolina DHEC "Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing treatment and/or collection system facilities that are essential to provide adequate treatment and disposal of the wastewater generated by the development of the new property.

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of non-residential customer is less than one (1). If the equivalency rating of a non-residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

C. Notification Fee \$15.00

A fee of \$15.00 shall be charged to each customer per notice to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

D. Customer Account Charge - (New customers only) \$30.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

Exhibit A**Schedule of Rates and Charges****Carolina Water Service, Inc.*****Docket No. 2017-292-WS***

E. Reconnection Charges: In addition to any other charges that may be due, in those cases where a customer's service has been disconnected for any reason as set forth in Commission Rule R. 103-532.4 a reconnection fee in the amount of \$500.00 shall be due at the time the customer reconnects service. Where an elder valve has been previously installed, a reconnection fee of \$40.00 shall be charged.

F. Tampering Charge: In the event the Utility's equipment, sewage pipes, meters, curb stops, service lines, elder valves or other facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, not to exceed \$250. The tampering charge shall be paid in full prior to the Utility re-establishing service or continuing the provision of service.